Answers

Marks

1 Mr Williams

(a) Income tax payable

			Marks
Employment income		M	
Basic salary		420,000	½
Car allowances		43,200	½
Housing allowance		42,000	½
Cellphone allowance (not taxable)		0	½
Entertainment allowance		21,600	½
Holiday travel allowance		6,200	½
Reimbursement: utilities and watchman (not taxable)		0	½
		533,000	
Less expenses:			
Employer superannuation fund contributions (2,200*12)		(26,400)	1
Self provided superannuation fund contributions (3,500*12)		(42,000)	1
		464,600	
Terminal benefits:	M		
Gratuity	535,500		1
Severance pay (94,500 – 1,500)	93,000		2
		628,500	
		1,093,100	
Property income			
Foreign source dividends (exempt)		0	1
Foreign source gain (exempt)		0	1
Lesotho source interest		12,500	1
Chargeable income		1,105,600	
Tax payable (40,368*22%)	8,881		
(1,065,232*35%)	372,831		
		381,712	1
Less personal tax credit		(5,000)	½
Net tax payable		376,712	13

(b) Income tax withheld and payable on the lumpsum payments

	M	Marks
Employer superannuation fund	60,000	½
Self provided superannuation fund	96,600	½
	156,600	
(156,600/0·75*25%)	52,200	1
		2

(c) Fringe benefits tax payable

	M	Marks
Car fringe benefit (390,000*15%)	58,500	1
Utilities fringe benefit:		
Cellphone (1,000*12)	12,000	1
Electricity and water (3,200 – 800)*12	28,800	1
Night watchman (exempt)	0	1
Taxable values	99,300	
Taxable amounts (99,300/0·65%)	152,769	1
Fringe benefits tax (152,769 * 35%)	53,469	1
		6

		Marks
(d) Mr Williams could have avoided the income tax paid on the lumpsum payments if, within 90 days of receipt, the payments were:		
– rolled over into another superannuation fund; or		2
– used to purchase an annuity.		2
		4
		25

2 PPH

(a) Advance corporation tax (ACT)

	M	
Dividends paid on 1 November 2009	25,000	
ACT (25,000*25/75)	8,333	1
Payable on or before 8 November 2009		1
		2

(b) Utilisation of ACT

ACT can be:

(i) Set off against instalments of tax	1
(ii) Set off against corporation tax liability net of instalments paid	1
(iii) Set off against value added tax (VAT) liability	1
(iv) Carried forward and set off against instalments of tax due, such as, corporation tax liability or VAT liability in subsequent year(s) of assessment	1
	4

(c) Corporation tax payable for the year ended 31 December 2009

	M	
Business income		
Turnover (950,200*100/114)	833,509	1
Less operating expenses (see workings)	(466,550)	
	366,959	
Property income		
Interest: Local (32,500 x 100/90)	36,111	1
Foreign (46,600 + 11,650)	58,250	1
Dividends: Local	exempt	½
Foreign (11,400 + 4,100)	15,500	1
Gain on disposal of shares (21,750 – (8·5*1,500))	9,000	1½
Chargeable income	485,820	
Tax payable at 25%	121,455	1
Less: Foreign tax credit (see workings)	(15,525)	
Local withholding tax	(3,611)	1
ACT	(8,333)	1
Net tax payable	93,986	
Payable on or before 31 March 2010		1

Workings:

	M	
1. Operating expenses		
Total incurred	530,150	1
Less: disallowed		
Advertising (35,500*80%)	(28,400)	1½
Franchise 40,000 – (40,000/5)	(32,000)	1½
Approved training (3,200*1)	(3,200)	2
	466,550	

Marks

2. **Foreign tax credit**

Foreign income	**Amount**	**Foreign Tax paid**	**Lesotho Tax**	**Credit Available**	
	M	M	M	M	
Interest	58,250	11,650	14,563	11,650	1
Dividends	15,500	4,100	3,875	3,875	1
				15,525	18

(d) Withholding tax payable

Cost of trade mark (40,000*10%)	4,000	
Management fees (25,700*10%)	2,570	
	6,570	2

(e) (i) A branch in Lesotho of a non-resident company is subject to tax at the standard rate of tax on repatriated income in addition to income tax on the chargeable income of the branch. 2

(ii)

Chargeable income	320,600	
Less: Income tax on chargeable income at 25%	(80,150)	½
	240,450	
Reinvested profits in Lesotho (240,450*80%)	(192,360)	1
	48,090	
Tax payable on repatriated profits at 25%	12,023	½
		2
		30

3 2 Sisters Boutique – value added tax (VAT)

(a) A person is obliged to register for VAT if his annual turnover of taxable supplies (including any zero rated supplies) exceeds M500,000 or there is reasonable ground to expect that it will exceed M500,000 during the period of the next 12 months. 2

(b) 2 Sisters Boutique will be in a position to claim any input VAT paid on taxable supplies when dealing with other vendors. 1

(c) (i) Input VAT

	M	
Purchases (15,200 * $^{14}/_{114}$)	1,867	1½
Rent (1,600 * $^{14}/_{114}$)	197	1
Transport (exempt)	–	½
Water (exempt)	–	½
Electricity (160 * 5/105)	8	1
Telephone (230 * 5/105)	11	1
Accounting fees (excluded)	–	½
Sundry expenses (420 * $^{14}/_{114}$)	52	1½
Furniture and equipment (7,500 * $^{14}/_{114}$)	921	½
	3,056	8

(ii) Output VAT

	M	
Sales		
Local (22,900 + 250 * $^{14}/_{114}$)	2,843	2
Exports (zero-rated)	–	1
	2,843	3

(iii)

VAT refundable (3,056 – 2,843)	213	1
		15

Marks

4 Lithebe Contractors –Long term contracts

(a) Chargeable income

		M	
Years: 2007/08	350,000 * 47·8%	167,300	1
2008/09	350,000 * 43·5%	152,250	1
2009/10	350,000 * 8·70%	30,450	1

Workings:

Chargeable income (estimated profit)*(percentage of contract completed)

	M	
Estimated profit (Total contract price – Total costs) (1,500,000 – 1,150,000)	350,000	1½

Percentage of contract completed = $\frac{\text{Contract costs incurred}}{\text{Total contract costs}}$

Years 2007/08	$\frac{550,000}{1,150,000}$	47·8%	1½
2008/09	$\frac{500,000}{1,150,000}$	43·5%	1½
2009/10	$\frac{100,000}{1,150,000}$	8·70%	1½
			9

(b) Utilisation of long-term contract loss

– Contract loss may be carried forward to subsequent year(s) of assessment and be offset against relevant income arising in subsequent year(s). 2

– Alternatively, contract losses may be carried back to a preceding year of assessment and be offset against relevant income. 2

– The loss can only be carried back provided the following conditions prevail:

  – When the Commissioner is convinced that the taxpayer is unable to carry the loss forward and offset it against relevant income in subsequent year(s) 1

  – When the Commissioner is satisfied that the taxpayer cannot obtain the benefit of the loss for tax purposes in other jurisdictions. 1

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5 Mrs Nkune – Taxation of estates of deceased persons

(a) Income received in a year of assessment of the death of a taxpayer and prior to the date of death is treated as chargeable trust income and taxed to the executor or administrator of deceased taxpayer for that year of assessment. 3

Such income is taxed at marginal rates if the deceased taxpayer was a resident, and the personal tax credit applies. It is taxed at 25% if he/she was a non resident. 2

Income received after the date of death of a deceased taxpayer, and arising from an income-producing activity of the taxpayer before the taxpayer's death is also treated as chargeable trust income and taxed to the executor or administrator of the deceased taxpayer. 3

Such income is taxed at marginal rates for the first year of assessment after the death of the taxpayer, and the personal tax credit applies. Thereafter, it is taxed at 35%, and no personal tax credit is allowed. 2

10

Marks

(b) Tax payable on Mrs Nkune's estates

Years	2007/08	2008/09	2009/10	
	M	M	M	
Income	120,000	99,500	82,620	
Tax payable:	at marginal rates	at marginal rates	at 35%	
	36,752	29,577	28,917	3
Less personal tax credit	(5,000)	(5,000)	–	2
	31,752	24,577	28,917	5
				15